

Message Text

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ACTION EB-08

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C O N F I D E N T I A L JAKARTA 0535

E.O. 11652: GDS

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SUBJECT: MINISTER SADLI'S VIEWS ON INDONESIA'S PROSPECTS IN THE
PETROLEUM FIELDS.

1. DURING OUR JANUARY 11 DISCUSSION, MINISTER OF MINES MOHAMMED SADLI SPECULATED THAT INDONESIA'S OIL PRODUCTION WOULD BE DOWN BY SEVEN PERCENT IN 1978 OVER THE PREVIOUS YEAR. HE BELIEVED, HOWEVER, THAT PRODUCTION WOULD RECOVER IN SUBSEQUENT YEARS. HE SAID EXPLORATORY DRILLING IS ALREADY ON THE INCREASE AND, IN ANSWER TO A QUESTION, SAID HE DID NOT BELIEVE FURTHER INCENTIVES WERE REQUIRED TO ATTRACT FOREIGN FIRMS IN THIS FIELD. THE FORMULA WORKED OUT TO RESOLVE THE RECENT IRS PROBLEM WOULD, THROUGH CONSOLIDATION, ALREADY PROVIDE SOME SLIGHT ADDITIONAL INCENTIVE. NOTHING FURTHER IS NECESSARY IN SADLI'S OPINION.

2. COMMENT: IT IS INTERESTING TO CONTRAST SADLI'S REMARKS ON OIL WITH THOSE OF PERTAMINA PRESIDENT HARYONO WITH WHOM I HAD LUNCH SHORTLY AFTER SEEING SADLI. HARYONO CONFIRMED THE ONGOING MODEST INCREASE IN EXPLORATORY ACTIVITY, AS WELL AS AN EXPECTED DECLINE IN OIL PRODUCTION IN 1978/79, BUT HE ESTIMATED IT AT ABOUT FIVE PERCENT, NOT SEVEN PERCENT. IN
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CONTRAST TO SADLI'S VIEW ON INCENTIVES, HARYONO SAID THAT GOI MAY WELL HAVE TO INSTITUTE FURTHER INCENTIVES IN ORDER TO ATTRACT SUFFICIENT INVESTMENT TO REGAIN 1977 PRODUCTION LEVELS IN THE EARLY 1980S. HE SPECIFICALLY MENTIONED DEEPWATER, SMALL RESERVOIRS AS CANDIDATES FOR SPECIAL INCENTIVES. END COMMENT.

3. SADLI EXPRESSED CONCERN AND DISAPPOINTMENT OVER DECLINING

REVENUES IN THE NON-OIL SECTOR. PACIFIC NICKEL IN DRAGGING OUT ITS ACTIVITIES ON GAG ISLAND AND SHELL HAS SLOWED DOWN DEVELOPMENT OF COAL RESOURCES IN SOUTHERN SUMATRA. IN FACT, THESE COAL RESERVES ARE NOT COMPETITIVE WITH EXPORTS FROM EXISTING MINES IN AUSTRALIA, AND SADLI SAID DEVELOPMENT OF DEPOSITS IN SOUTHERN SUMATRA MIGHT BE DELAYED FOR SEVERAL YEARS UNTIL AUSTRALIAN MINES ALREADY IN OPERATION BECOME DEPLETED. HE EXPRESSED CONCERN ALSO ABOUT THE LOW LEVEL OF COPPER PRICES ON THE WORLD MARKET AND SAID HE WAS DISAPPOINTED THAT VIRTUALLY NOTHING HAD BEEN ACCOMPLISHED BETWEEN THE SECOND AND THE FORTH-COMING THIRD PREPARATORY MEETINGS. HE DID NOT FEEL THAT GOVERNMENT INTERVENTION WOULD SOLVE THIS PROBLEM, BUT FELT IT WOULD HAVE TO WORK OUT OVER TIME BY THE PLAY OF MARKET FORCES. THE BASIC PROBLEM, HE SAID, IS TOO MUCH SUPPLY AND TOO LITTLE DEMAND.

4. ON THE NORTH-SOUTH DIALOGUE, SADLI ECHOED THE VIEWS EXPRESSED BY SIDJOJO (JAKARTA 0346) THAT STEPS SHOULD BE TAKEN TO RESUME THE DISCUSSIONS. HE SAID, HOWEVER, THAT HE HAD MENTIONED THIS TO INDONESIAN AMBASSADOR ALATAS IN GENEVA, AND THE LATTER HAD EXPRESSED SERIOUS CONCERN ABOUT INDONESIA GETTING TOO FAR IN FRONT OF THE G-77. INDONESIA IS STILL CONSIDERING, SADLI SAID, IF AND HOW IT MIGHT BE HELPFUL IN RESOLVING THE PRESENT IMPASSE.

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